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PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

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PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:

**APPLICATION OF KENTUCKY POWER COMPANY
d/b/a AMERICAN ELECTRIC POWER, FOR
APPROVAL, TO THE EXTENT NECESSARY,
TO TRANSFER FUNCTIONAL CONTROL OF
TRANSMISSION FACILITIES LOCATED IN
KENTUCKY TO PJM INTERCONNECTION, L.L.C.
PURSUANT TO KRS 278.218**

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CASE NO. 2002-60475

APPLICATION

December 19, 2002

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

APPLICATION OF KENTUCKY POWER COMPANY)	
d/b/a AMERICAN ELECTRIC POWER, FOR)	
APPROVAL, TO THE EXTENT NECESSARY,)	CASE NO. 2002- <u>00475</u>
TO TRANSFER FUNCTIONAL CONTROL ONLY)	
OF TRANSMISSION FACILITIES LOCATED IN)	
KENTUCKY TO PJM INTERCONNECTION, L.L.C.)	
PURSUANT TO KRS 278.218)	

APPLICATION

Kentucky Power Company d/b/a American Electric Power ("Kentucky Power"), respectfully moves the Kentucky Public Service Commission ("Commission") pursuant to KRS 278.218 for approval, to the extent required,¹ to transfer functional control of Kentucky Power's transmission facilities located in the Commonwealth of Kentucky to PJM Interconnection, L.L.C. ("PJM"). In support of this Application, Kentucky Power, states:

Applicant

1. Kentucky Power is an electric utility organized as a corporation under the laws of the Commonwealth of Kentucky in 1919. A certified copy of Kentucky Power's Articles of Incorporation and all amendments thereto was attached to the Joint Application in Case No. 99-149² as Exhibit 1. The post office address of Kentucky Power is 101A Enterprise Drive, P.O. 5190, Frankfort, Kentucky 40602-5190. Kentucky Power is engaged in the generation, purchase, transmission, distribution and sale of electric power. Kentucky Power serves approximately

¹ In making this application Kentucky Power does not waive any argument that Commission action on the transfer of control of, or operational responsibility for, transmission facilities is preempted by federal law or regulatory action or otherwise not required by KRS 278.218.

² In the Matter of: The Joint Application Of Kentucky Power Company, American Electric Power Company, Inc. And Central And South West Corporation Regarding A Proposed Merger, P.S.C. Case No. 99-149.

170,000 customers in the following 20 counties of eastern Kentucky: Boyd, Breathitt, Carter, Clay, Elliott, Floyd, Greenup, Johnson, Knott, Lawrence, Leslie, Letcher, Lewis, Magoffin, Martin, Morgan, Owsley, Perry, Pike and Rowan. Kentucky Power also supplies electric power at wholesale to other utilities and municipalities in Kentucky for resale. Kentucky Power is a utility as that term is defined at KRS 278.010.

2. Kentucky Power is a wholly owned subsidiary of American Electric Power Company, Inc. ("AEP") and is an operating company subsidiary in the AEP System. The AEP System is a multi-state public utility holding company system, which provides electric service to customers in parts of eleven states – Arkansas, Indiana, Kentucky, Louisiana, Michigan, Ohio, Oklahoma, Tennessee, Texas, Virginia and West Virginia.

3. Kentucky Power's electric business within the Commonwealth of Kentucky is subject to the Commission's jurisdiction in the manner and to the extent provided by the Chapter 278 of the Kentucky Revised Statutes, and other laws of the Commonwealth of Kentucky. Approval of this transaction is sought if and to the extent required by the KRS 278.218.

The Transmission System

4. The AEP transmission system is operated as a single integrated unit across the states in which the AEP operating companies, including Kentucky Power, provide service. The AEP System offers open access transmission service across the entire system, pursuant to a tariff filed with and subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC"). The operating companies owned by AEP prior to its 2000 merger with Central and South West Corporation, including Kentucky Power, form its east transmission-pricing zone ("east zone").

5. Kentucky Power's transmission system consists of approximately 1,230 circuit miles of line, including 258 circuit miles of 765 kV line, 8 circuit miles of 345 kV line, 46 circuit miles of 161 kV line, 320 circuit miles of 138 kV line, and a total of 598 circuit miles of 69 kV line, 46 kV and 34.5 kV lines.

6. PJM is a fully functioning regional transmission organization (RTO) that operates a vast competitive wholesale electricity market.

7. PJM reliably, adequately and efficiently has operated its transmission network for years and is capable of assuming functional control of Kentucky Power's transmission facilities.

The Proposed Transaction

8. In its June, 2000, order approving the merger of AEP and Central and South West Corporation in Docket Nos. EC98-40-000, et al., FERC required AEP to transfer functional control of its transmission facilities to one or more RTOs. The proposed transaction is designed to meet this FERC-imposed requirement.

9. On May 7, 2002, AEP, acting on behalf of Kentucky Power and the other AEP East Operating Companies, entered into a Memorandum of Understanding with PJM indicating that Kentucky Power and the other AEP Operating Companies operating in its east zone intend to participate in PJM (along with three other transmission owners) either through an ITC or as individual transmission owners. By its order dated July 31, 2002, FERC conditionally accepted Kentucky Power's RTO choice.

10. On September 30, 2002, AEP and others entered into an Implementation Agreement with PJM, providing for integration of AEP and other new PJM Companies' facilities into PJM. A copy of the Implementation Agreement is submitted with this application.

11. On December 9, 2002, AEP signed an amended PJM West Transmission Owners' Agreement, and the PJM Operating Agreement. On December 11, 2002, AEP, other new PJM Companies and PJM filed with the FERC the amended agreements and other documents necessary for expansion of the PJM RTO to include AEP and the other new PJM Companies. ("Expansion Application"). A copy of the Expansion Application is submitted with this application. Also, a copy of the Expansion Application is available on PJM's website, www.pjm.org.

12. PJM, as expanded, will make available to Kentucky Power, on behalf of its customers, a vast energy market stretching from Illinois to the Atlantic Ocean, and including 158,000 megawatts of generating capacity. In addition, arrangements are being developed to create a common market with seamless transmission access throughout an enormous region incorporating the expanded PJM and the Midwest Independent System Operator, Inc. ("MISO").

13. AEP's participation in PJM is expected to occur in two stages, informally referred to as "Day One" and "Day Two." Day One is expected to begin in the first quarter of 2003. PJM will assume functional control over the AEP east zone transmission facilities, and begin to provide transmission service over such facilities, pursuant to PJM's Open Access Transmission Tariff, and to perform all the associated functions, including operation of the Open Access Same-time Information System ("OASIS") and, calculation of Available Transmission Capability. Day Two is expected to occur by May 1, 2003, when AEP will become integrated into PJM's energy and other markets.

14. Although Kentucky Power will surrender functional control of its transmission system to PJM, it will retain ownership of the transmission facilities. Kentucky Power will

continue to maintain and repair the transmission facilities it currently owns and will coordinate its maintenance schedule with PJM.

**The Transaction Is For a Proper Purpose And
Consistent With The Public Interest**

15. KRS 278.218(1) provides that Commission approval is required for the “transfer of ownership of or control, or the right to control,” certain assets of utilities. It further provides that approval is to be granted, “if the transaction is for a proper purpose and is consistent with the public interest.” KRS 278.218(2).

16. The information submitted in connection with this Application demonstrates that the transfer of functional control of Kentucky Power’s transmission facilities to PJM should be approved pursuant to KRS 278.218 as being for a proper purpose and consistent with the public interest.

17. In addition, the proposed transaction is being undertaken in accordance with the Orders of FERC and to carry out the requirements of federal law. Kentucky Power’s participation in PJM as part of the integrated AEP System will benefit its ratepayers by improving reliability and competitiveness of the interstate wholesale electric market. Kentucky Power’s ratepayers directly benefit from the interstate wholesale electric market through, *inter alia*, their share of Kentucky Power’s off system sales profits. Kentucky Power’s ratepayers also will benefit from the resolution of “seams” issues in accordance with FERC’s July 31, 2002 order.

18. Approval of the transfer in accordance with FERC requirements will assure the uniform treatment across all AEP transmission facilities necessary to continue the integrated and reliable operation of the entire transmission system.

19. PJM has the technical, managerial and financial ability to control Kentucky Power's transmission facilities. PJM is a fully functioning RTO that operates a large competitive wholesale electricity market. PJM has reliably, adequately and efficiently operated its transmission network for years.

20. The information submitted in the Expansion Application and the direct testimony of J.Craig Baker, Senior Vice President of Regulation and Public Policy, submitted herewith demonstrates that approval for the transfer of functional control of AEP's transmission facilities in Kentucky to PJM should be granted.

Communications

21. The Applicant respectfully request that communications in this matter be addressed to:

Mark R. Overstreet
STITES & HARBISON, PLLC
P.O. Box 634
Frankfort, Kentucky 40602-0634

Kevin F. Duffy
American Electric Power Service Corporation
Post Office Box 16631
Columbus, OH 43216

Errol K. Wagner
Kentucky Power Company d/b/a American
Electric Power
P.O. Box 5190
Frankfort, Kentucky 40602-5190

C.R. Boyle, III
American Electric Power Service Corporation
Post Office Box 16631
Columbus, OH 43216

KRS 278.020(4) and KRS 278.020(5) Are Not Applicable

22. Kentucky Power will continue to own and operate its other assets for the provision of electric service in its service territory and will continue to provide retail and wholesale electric service in its service territory. Kentucky Power will not transfer, and no other party will acquire ownership of, control of, or the right to control, either directly or indirectly, Kentucky Power. Accordingly, KRS 278.020(4) and KRS 278.020(5) are inapplicable.

Request For Informal Conference and Expedited Proceedings

23. The Applicant respectfully request that the Commission hold an informal conference in this matter on December 23, 2002 or as soon as practical for the purpose of establishing a procedural schedule and addressing any technical issues. The Applicant further request that the Commission expeditiously set and hold a public hearing in this matter pursuant to a procedural schedule that will allow the Commission to issue a final order as soon as possible.

WHEREFORE, Kentucky Power Company, requests that the Commission:

- (a) Approve pursuant to KRS 278.218 the transfer to PJM of functional control of Kentucky Power's transmission facilities; and
- (b) Grant to Kentucky Power such other relief as may be appropriate.

Respectfully submitted,

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kfduffy@aep.com

COUNSEL FOR KENTUCKY POWER
COMPANY D/B/A AMERICAN ELECTRIC
POWER

CERTIFICATE OF SERVICE

I do hereby certify that a copy of the foregoing Application was served upon the following as indicated below this 19th day of December, 2002:

Elizabeth E. Blackford
Assistant Attorney General
Office of Rate Intervention
1024 Capital Center Drive
Frankfort, Kentucky 40601

BY HAND DELIVERY

David F. Boehm
Michael L. Kurtz
Boehm, Kurtz & Lowry
2110 CBLD Center
36 East Seventh Street
Cincinnati, Ohio 45202

BY OVERNIGHT DELIVERY


Richard G. Raff
Public Service Commission of Kentucky
211 Sower Boulevard
Frankfort, Kentucky 40601

BY HAND DELIVERY

Mark R. Overstreet

Verification

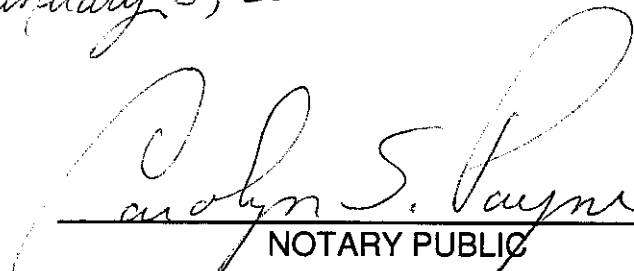
Errol K. Wagner, Assistant Secretary and Director of Regulatory Services, Kentucky Power Company d/b/a American Electric Power, having been duly sworn, states that the factual matters set forth in the foregoing Application are true and correct to the best of his knowledge.


Errol K. Wagner

COMMONWEALTH OF KENTUCKY)
) SS
COUNTY OF FRANKLIN)

The foregoing instrument was subscribed, sworn to and acknowledged before me this ___ day of December, 2002, by Errol K. Wagner, Assistant Secretary and Director of Regulatory Services, Kentucky Power Company d/b/a American Electric Power.

My commission expires: *January 8, 2005*



NOTARY PUBLIC

[SEAL]

Kentucky Power Company
Case No. 2002-_____
RTO Filing

Table of Contents

Exhibit 1

- Implementation Agreement
- May 7, 2002 MOU
- June 25, 2002 MOU
- Operating Agreement
- PJM OATT
- Reliability Assurance Agreement
- West Transmission Owners Agreement

Exhibit 2

PJM Expansion Filing of December 2002

Volume 1:

- Appendix A - Contact List for Communications
- Appendix B - Form of Notice of Filing
- Appendix C - Testimony and Exhibits of J. Stephen Henderson
- Appendix D - Testimony and Exhibits of Dennis W. Bethel
- Appendix E - Testimony and Exhibits of Jennifer T. Sterling
- Appendix F - Testimony and Exhibits of Sharon R. Crawford
- Appendix G - Testimony and Exhibits of James D. Jackson
- Appendix H - List of Grandfathered Contracts
- Appendix I - Market Growth & Expansion Budget (PJM Administrative)
- Appendix J - Pro Forma Revised Rate Schedules at the time of DP&L's Integration
- Appendix K - Pro Forma Revised Rate Schedules at the time of Dominion's Integration
- Appendix L - Transmission Owners Advisory Committee Resolution
- Appendix M - Oasis Reservation Conversion Plan

Volume 2:

- Appendix N - Revised PJM OATT

Volume 3:

Appendix O - PJM OATT (Redline showing revisions)

Volume 4:

Appendix P - Revised PJM Operating Agreement

Appendix Q - PJM Operating Agreement (Redline showing revisions)

Appendix R - PJM West Transmission Owners Agreement

Appendix S - Transmission Owners Agreement

Appendix T - Certificate of Service

Index to Appendices

Transmittal Letter 12-11-02 Expansion Filing

Exhibit 3

July 12, 2001 FERC Order

July 31, 2002 FERC Order

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF:

**APPLICATION OF KENTUCKY POWER COMPANY
d/b/a AMERICAN ELECTRIC POWER, FOR
APPROVAL, TO THE EXTENT NECESSARY,
TO TRANSFER FUNCTIONAL CONTROL OF
TRANSMISSION FACILITIES LOCATED IN
KENTUCKY TO PJM INTERCONNECTION, L.L.C.
PURSUANT TO KRS 278.218**

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)CASE NO. 2002-____
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DIRECT TESTIMONY

OF

J. CRAIG BAKER

December 19, 2002

**DIRECT TESTIMONY OF
J. CRAIG BAKER
FOR KENTUCKY POWER COMPANY
d/b/a AMERICAN ELECTRIC POWER
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 2002- _____**

1 Q. Please state your name and business address.

2 A. My name is J. Craig Baker. My business address is 1 Riverside Plaza, Columbus, Ohio
3 43215.

4 Q. By whom are you employed and in what capacity?

5 A. I am employed by American Electric Power Service Corporation (AEPSC) as Senior
6 Vice President- Regulation and Public Policy.

7 Q. Would you please describe your educational and employment background?

8 A. I received a Bachelor's Degree in Business Administration from Walsh College in 1970
9 and a Masters Degree in Business Administration in Finance from Akron University in
10 1980. I joined the American Electric Power (AEP) System in 1968 and through 1979
11 held various positions in the Computer Applications Division. I transferred to the System
12 Operation Division in 1979 and held positions of Administrative Assistant and Assistant
13 Manager. In 1985, I took the position of Staff Analyst in the Controllers Department and,
14 in 1987, I became Manager-Power Marketing in the System Power Markets Department.
15 In 1991, I became Director, Interconnection Agreements and Marketing. I became Vice
16 President-Power Marketing for AEPSC and Senior Vice President of Energy Marketing
17 for AEP Energy Services, Inc. in November 1996 and August 1997, respectively. On
18 July 1, 1998 I became Vice President of Transmission Policy for AEPSC. In January
19 2001, I became Senior Vice President - Regulation and Public Policy for AEPSC.

1 A major focus of my activities since 1998 has been AEP's RTO participation,
2 including discussions with the Alliance participants, Southwest Power Pool (SPP), the
3 Midwest ISO (MISO) and PJM.

4 Q. What is the AEP System?

5 A. The AEP System is a physically integrated and centrally dispatched electric utility system
6 for the generation, transmission and sale of electric energy. The AEP System's operating
7 companies furnish electric services in an eleven-state area.

8 **PURPOSE OF TESTIMONY**

9 Q. What is the purpose of your testimony?

10 A. The purpose of my testimony is to explain AEP's current plans to transfer functional
11 control of its transmission facilities in its east transmission pricing zone (east zone) to
12 PJM Interconnection, LLC (PJM). I will also describe how this plan complies with
13 Kentucky state law requiring such a transfer, and satisfies the requirements of this
14 Commission relating to such transfers.

15 AEP, as a condition of the Federal Energy Regulatory Commission's (FERC)
16 approval, in 2000, of its merger with the former Central and South West Corporation
17 (CSW) is required to transfer functional control of its transmission facilities to a Regional
18 Transmission Organization (RTO). In addition, FERC, in Order No. 2000, has strongly
19 encouraged transmission-owning utilities to join RTOs, and, more recently, in Docket
20 No. RM01-12-000, has issued a proposed rule requiring utilities to participate in an RTO
21 or other independent transmission provider.

22 AEP's east zone is one of two transmission pricing zones under AEP's FERC-
23 approved Open Access Transmission Tariff. This zone includes the facilities in Indiana,

1 Kentucky, Michigan, Ohio, Virginia, West Virginia and Tennessee that comprised the
2 AEP System prior to AEP's merger with CSW. AEP's west zone consists of the facilities
3 in Texas, Oklahoma, Arkansas and Louisiana comprising the former CSW System.
4 Presently, AEP intends to transfer functional control of only its east zone transmission
5 facilities to PJM, consistent with FERC's July 31, 2002 order conditionally accepting
6 AEP's choice of PJM for these facilities. AEP has transferred or will transfer its west
7 zone facilities to an independent operator, but those efforts are not pertinent to this filing.
8 For the remainder of my testimony, when I speak of AEP's RTO development efforts or
9 transmission facilities, I will be referring to the east zone.

10 **AEP'S RTO ACTIVITIES**

11 Q. Please describe, briefly, the history of AEP's efforts to transfer functional control of its
12 facilities to an RTO.

13 A. On June 3, 1999, AEP, along with FirstEnergy Corporation, Consumers Energy
14 Company, the Detroit Edison Company, and Virginia Power, filed with the FERC, in
15 Docket Nos. ER99-3144-000 and EC99-80-000, a proposal seeking FERC's approval to
16 form the Alliance RTO. This filing was the culmination of an effort by AEP and the
17 other four companies to develop an RTO that is based on an independent transmission
18 business model.

19 Subsequent to the initial filing, a number of other transmission owning utilities
20 became Alliance participants. These included Northern Indiana Public Service Company
21 (NIPSCO), Dayton Power & Light Company (DP&L), Commonwealth Edison Company
22 (ComEd), Illinois Power Company, and Ameren Corporation. In addition, National Grid
23 Company USA (National Grid), a company seeking to develop electric transmission as an

1 independent business, became involved as the proposed independent manager of the
2 Alliance RTO.

3 Q. What was FERC's response to the Alliance Companies' filing?

4 A. In a series of orders over the course of 2000 and 2001, the FERC consistently encouraged
5 the Alliance Companies to pursue development of their RTO proposal and found that the
6 proposed Alliance RTO substantially satisfied the RTO characteristics and functions of
7 FERC Order No. 2000, including the requirement to be of adequate scope and regional
8 configuration.

9 However, in an Order on Requests for Rehearing issued on December 20, 2001,
10 the FERC reversed its prior findings and found the Alliance proposal non-compliant with
11 Order No. 2000.

12 Q. What activities did the Alliance Companies then undertake?

13 A. In accordance with FERC's direction, AEP and the other Alliance Companies negotiated
14 with the MISO, exploring how the Alliance business plan could be incorporated into the
15 MISO. When such negotiations proved unsuccessful, the Alliance Companies sought
16 guidance from FERC to clarify the parameters under which the Alliance could participate
17 as an independent transmission company (ITC) under the MISO, while at the same time
18 retaining the viability of the Alliance business plan. On April 26, 2002, the FERC issued
19 an Order granting in part and denying in part the declaratory order sought by the Alliance
20 Companies.

21 The FERC's April 26, 2002 Order recognized that its failure to grant, in full, the
22 relief sought by the Alliance Companies could result in the Alliance participants

1 reevaluating their plans for RTO participation; and directed the Alliance Companies to
2 report which RTO they wish to join, individually or collectively.

3 **AEP'S PLAN**

4 Q. What options for RTO participation did AEP consider following FERC's April 26, 2002
5 Order?

6 A. AEP considered four options: 1) joining the MISO as an individual transmission owner;
7 2) joining the MISO as part of an ITC involving other former Alliance Companies; 3)
8 joining PJM individually; or 4) joining PJM as part of an ITC.

9 Q. What option did AEP choose?

10 A. AEP chose to join PJM. On May 7, 2002, AEP entered into a Memorandum of
11 Understanding (MOU) with PJM, indicating AEP's intent to participate in PJM either
12 individually or in conjunction with other Alliance Companies. A copy of the May 7,
13 2002 MOU is submitted as part of this application. On June 25, 2002, AEP, ComEd,
14 Illinois Power, National Grid and PJM filed with the FERC an MOU reflecting the intent
15 of AEP, ComEd and Illinois Power to participate in PJM through an ITC, which would
16 be managed by National Grid. The June 25, 2002 MOU states that if the conditions for
17 formation of the ITC are not satisfied, AEP and the other companies will join PJM as
18 individual transmission owners. A copy of the June 25, 2002 MOU is submitted as part
19 of this application.

20 Q. Has FERC approved AEP's RTO choice?

21 A. Yes. In an Order issued July 31, 2002, the FERC conditionally accepted all of the former
22 Alliance Companies' RTO choices.

23 Q. What conditions did FERC impose upon the Companies' choices?

1 A. The FERC imposed the following conditions:

- 2 1) The MISO and PJM must form a functional common market across the two
3 organizations by October 1, 2004.
- 4 2) PJM must revise its tariff to permit ITCs to operate under PJM. The delineation
5 of functions between the ITC and PJM must be the same as that accepted by the
6 FERC for an ITC operating under MISO.
- 7 3) The North American Electric Reliability Council (NERC) must approve PJM's
8 and MISO's updated reliability plans. MISO and PJM must also file a joint
9 operational agreement detailing how they will operate at their "seams" during the
10 transition to a common market.
- 11 4) A rate for service through and out of the combined region must be developed. In
12 this regard, FERC initiated an investigation under Section 206 of the Federal
13 Power Act to develop such a rate.
- 14 5) AEP, ComEd, Illinois Power, the MISO and PJM must develop a joint operational
15 plan to address alleged isolation of utilities in Michigan and Wisconsin and other
16 "seams" issues. PJM and the MISO must analyze changes in loop flow and
17 congestion resulting from the new configuration and post the expected financial
18 and operational impacts on their websites prior to adding new members.
- 19 6) The MISO, PJM and National Grid must file an implementation plan for the
20 development of their common market within 45 days of the date of the FERC's
21 order, and report on that implementation every sixty days thereafter.

22 Q. Are FERC's conditions being addressed?

1 A. Yes. On January 18, 2002, PJM and MISO entered into a Letter of Intent to rapidly
2 develop a single market that meets the needs of all stakeholders and customers using the
3 electric power grid in the regions served by the MISO and PJM. The two RTOs report
4 monthly to the FERC on this endeavor, and their reports are published on a joint website
5 (www.miso-pjm-spp.com). NERC has approved PJM's and MISO's updated reliability
6 plans. Proceedings are currently underway at FERC for the development of a rate for
7 service through and out of the combined region, and settlement discussions have been
8 initiated to address the Michigan and Wisconsin issues.

9 Q. Why did AEP choose PJM?

10 A. The major reasons for AEP's choice included the following

- 11 1) PJM has already in operation, a state-of-the-art market, including day-
12 ahead and real-time energy, imbalance and ancillary service markets, and
13 price discovery. As expanded the PJM market will encompass over
14 150,000 MW of generating capacity. The FERC's Standard Market
15 Design NOPR, which it proposes to adopt nationwide, is based on the PJM
16 model.
- 17 2) The Kanawha-Matt Funk congestion point, which has been a problem area
18 due to siting delays in AEP's plans to reinforce its system and other
19 constraints in the southeast portion of the AEP system, will be addressed
20 in a comprehensive manner by PJM, because the systems most affected --
21 AEP, Virginia Power and Allegheny Power System -- are, or plan to be, in
22 PJM.

- 1 3) PJM has proven experience in integrating new members into the PJM
2 footprint in an expedited and cost effective manner.
- 3 4) AEP's affiliation with PJM will provide access to PJM's already-approved
4 congestion management, market mitigation and market monitoring
5 systems in an expedited manner.
- 6 5) PJM will provide deep independence. Transmission owner control will
7 not be an issue.
- 8 6) PJM's ancillary service and energy imbalance markets are conducive to
9 retail electric choice. Three of the seven states in AEP's east zone have
10 customer choice programs. PJM has substantial experience in performing
11 RTO functions.
- 12 7) PJM's congestion management system, featuring locational marginal
13 pricing, will significantly improve the congestion management system
14 currently being used in the AEP system and will limit or eliminate reliance
15 on transmission loading relief (TLR) procedures, thus eliminating the
16 perception by some that TLRs are used in a discriminatory manner.

17 Q, Why did AEP not seek PJM participation earlier?

18 A. AEP was not directly connected with PJM. Further, PJM's required reserve margin was
19 higher than that required in ECAR. However, in 2002, Allegheny Power System (APS)
20 joined PJM, creating a direct connection between PJM and AEP. The reserve margin
21 issue is being addressed as part of the May and June MOUs, which call for a
22 reexamination by PJM of its reserve requirements in PJM West. AEP is confident that
23 this matter can be resolved satisfactorily.

1 Q. What is the timetable for AEP's participation in PJM?

2 A. On Day One, the AEP member Companies in the east zone will transfer functional
3 control of their transmission facilities to PJM. Transmission service, and all the
4 associated functions, such as operation of the Open Access Same-time Information
5 System (OASIS), calculation of Available Transmission Capability (ATC), etc. will be
6 provided independently by PJM. In short, by Day One, AEP member companies will
7 have totally surrendered functional control of their east zone transmission facilities to an
8 independent entity. Day One is expected to occur in the first quarter of 2003.

9 Day Two involves integration of AEP and the other companies into PJM's energy
10 markets. Development of the systems and procedures necessary to implement this
11 complex system will take some time. Day Two is expected to occur by May 1, 2003.

12 Q. What actions has AEP been taking to implement its plan to participate in PJM?

13 A. Implementation activities are well underway, and AEP, PJM and the other participants
14 have been diligently pursuing the addition of the new members to PJM. Implementation
15 teams in the areas of agreements, tariff, operations, planning, markets, etc. have been
16 populated with AEP, PJM and other Alliance Company personnel, and numerous
17 meetings have been held. PJM appointed a project manager, who is the same individual
18 who handled the integration of Allegheny Power into PJM. On September 30, 2002,
19 AEP and others entered into an Implementation Agreement which includes an
20 implementation plan, and provides for payment by AEP and the other participants of
21 PJM's expansion costs.

22 On December 9, 2002, AEP and other new PJM Companies signed the amended
23 West Transmission Owners Agreement. On December 11, 2002, AEP, other new PJM

1 Companies and PJM filed with FERC the amended agreements and documents necessary
2 for expansion of the PJM RTO to include AEP and the other new PJM Companies
3 (Expansion Application). A copy of the Expansion Application is submitted as part of
4 this application.

5 Q. Who will be responsible for operating, maintaining and repairing AEP's transmission
6 facilities?

7 A. AEP will continue to operate, maintain and repair all of its transmission facilities that it
8 currently owns and will coordinate with PJM regarding maintenance schedules.

9 Q. Does PJM have the managerial, technical, and financial ability to functionally control the
10 transmission facilities?

11 A. Yes. PJM has operated as a centrally-dispatched, tight power pool for decades, and for
12 several years has been operating as an ISO. In this respect, PJM is far ahead of the MISO
13 (the Company's only other feasible choice for RTO participation), which only began
14 operations in 2002.

15 **THE TRANSFER IS CONSISTENT WITH THE PUBLIC INTEREST**

16 Q. Is Kentucky Power's participation in PJM, and subsequent transfer of functional control
17 of its transmission facilities to PJM, consistent with the public interest?

18 A. Yes. Kentucky Power's participation in PJM, as part of the integrated AEP System, will
19 benefit Kentucky electric customers by improving the reliability and competitiveness of
20 interstate wholesale energy markets, and, greatly expand the generation sources
21 economically available to Kentucky customers. The resolution of seams issues between
22 PJM and MISO pursuant to the FERC's July 31, 2002 Order will further enhance RTO
23 benefits for Kentucky customers.

1 Finally, AEP's participation in PJM, and the resultant transfer of Kentucky
2 Power's transmission facilities, will promote construction of properly located generation
3 when that is the optimum solution.

4 Q. How will Kentucky Power's participation in PJM, and the resultant transfer of its
5 transmission facilities, enhance service reliability in the Commonwealth?

6 A. Kentucky Power's participation in PJM, as part of the integrated AEP System, will
7 improve service reliability by consolidating in one entity transmission reliability
8 functions that formerly were performed by several utilities and control areas. This
9 consolidation of functions will necessarily improve coordination and communication in
10 matters relating to the operation of the regional transmission system.

11 In addition, PJM, will have exclusive authority for maintaining short-term reliability of
12 the transmission grid. It will be responsible for maintaining the security and reliability of
13 the integrated transmission system. In conjunction with ITC, PJM will serve as NERC's
14 Reliability Coordinator for the expanded PJM region and will direct control area
15 operations of its participants. In this regard, it will engage in transmission system
16 security monitoring, coordinate with other security coordinators, implement reliability
17 procedures, direct responses to emergency situations and provide congestion clearing
18 solutions as necessary to maintain a secure transmission system.

19 Q. How will Kentucky Power's participation in PJM promote the reliable and efficient
20 operation of its transmission system?

21 A. PJM uses locational marginal pricing (LMP) as a mechanism to manage transmission
22 system congestion. LMP can minimize reliance on transmission loading relief, an

1 administrative system of rationing congested transmission facilities that has been much
2 criticized by energy market participants.

3 Q. Is the issue of “seams” between MISO and PJM being addressed?

4 A. Yes. Among the conditions imposed by FERC on AEP’s choice of PJM is the
5 requirement that NERC must approve PJM and MISO’s updated reliability plans. In
6 addition, MISO and PJM must file a joint operational agreement detailing how they will
7 operate at their “seams” during the transition to a common market. Significant activity
8 and progress is being made in this area.

9 Q. Will AEP’s participation in PJM promote construction of properly located generation and
10 transmission facilities when that is the optimum solution?

11 A. Yes, in at least two ways. First, PJM’s LMP congestion management system provides
12 price signals for the optimum location of new generation and transmission infrastructure.
13 Second, PJM’s rules recognize the necessity of maintaining generation resource
14 adequacy.

15 **THE TRANSFER IS FOR A PROPER PURPOSE**

16 Q. Please explain how the proposed transfer is for a proper purpose.

17 A. Most importantly, the transfer is being carried out to satisfy AEP’s obligations under
18 federal law. AEP, as a condition of the FERC’s approval, in 2000, of its merger with the
19 former CSW is required to transfer functional control of its transmission facilities to an
20 RTO. In addition, FERC, in Order No. 2000, has strongly encouraged transmission-
21 owning utilities to join RTOs, and, more recently, in Docket No. RM01-12-000, has
22 issued a proposed rule requiring utilities to participate in an RTO or other independent
23 transmission provider.

1

RELIEF SOUGHT

2 Q. Is Kentucky Power requesting the Commission to approve the transfer of the functional

3 control of its transmission facilities to PJM?

4 A. Yes, to the extent that the Commission has jurisdiction to approve such a transaction,

5 KPCo is asking the Commission to approve the transaction.

6 Q. Does this complete your direct testimony?

7 A. Yes, it does.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

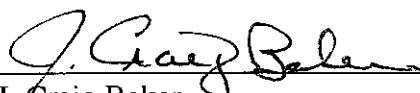
STATE OF OHIO

CASE NO. 2002-


COUNTY OF FRANKLIN

AFFIDAVIT

J. Craig Baker, upon first being duly sworn, hereby makes oath that if the foregoing questions were propounded to him at a hearing before the Public Service Commission of Kentucky, he would give the answers recorded following each of said questions and that said answers are true.


J. Craig Baker

Subscribed and sworn to before me by J. Craig Baker this 16 day of December, 2002.


Notary Public

NARAYANAN K. SACHDEVA
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 18, 2002

My Commission Expires _____